

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58007

WHATCOM COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

Issue Date: January 24, 1997

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WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

County Executive
Whatcom County
Bellingham, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Whatcom County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

We also noted a matter involving noncompliance with laws and regulations related to federal financial assistance which was reported to the county's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the county executive and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

County Executive
Whatcom County
Bellingham, Washington

We have audited the general-purpose financial statements of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings and the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings and the Schedule of Federal Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the county's management in our report on general requirements and the Schedule of Federal Findings.

This report is intended for the information of management and the county executive and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Whatcom County Health Department Should Properly Account For State Supplied Vaccines

During the course of our audit, we noted the following instances of noncompliance in the health department immunization program:

- a. The Whatcom County Health Department immunization program did not retain all prepared state supplied vaccine inventory reports and supporting records. The discarded reports and records are necessary for supporting required monthly vaccine accountability reports submitted to the Washington State Department of Health.
- b. The Whatcom County Health Department immunization program did not adequately investigate or resolve variances noted on the monthly state supplied vaccine inventory report. Without the supporting records we are unable to follow up on these variances.

The *Revised Code of Washington* (RCW) 43.09.200 states:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The *Record Retention Manual for Health Districts and Health Departments*, HD-3-5-1, Biologic, prescribed by the Washington State Records Committee requires the "Distribution and inventory record of drugs used in disease control" be retained for a period of seven years.

The *1995 Consolidated Contract No. 9920-03230*, Exhibit C, Section G, Goal 5, Method No. L40.1B between the Washington State Department of Health and the Whatcom County Health Department requires the department to:

Account for all vaccine distributed . . . to private providers and community clinics by antigen, lot number, manufacturer, expiration date, and doses administered by age.

The lack of these supporting documents prevented us from determining whether or not the department properly accounted for unissued, issued, and expired state supplied vaccines. Additionally, the lack of these supporting documents prevented us from determining the cause of frequent vaccine inventory variances.

Immunization program staff were not aware these records were to be retained. Staff indicated these records could be obtained from external sources and recreated but subsequently indicated they failed to see the need to do so. Additionally, staff indicated that follow up of consistent errors made by private providers was performed, although appropriate supporting documentation may not have been retained. They intend to become more accountable for state supplied vaccines in the future.

We recommend the county ensure all records are safeguarded and retained in accordance with applicable records retention requirements and these records be available for audit. We also recommend the county investigate state supplied vaccine inventory variances.

Auditee's Response

Whatcom County will take the necessary actions to ensure we account for state supplied vaccines in accordance with RCW 43.09.200 and in accordance with the DSHS consolidated contract. Furthermore, the County will adhere to the state record retention requirements.

2. The Whatcom County Health Department Billing And Accounts Receivable Systems Controls Should Be Improved

The following internal control weaknesses were noted in the Whatcom County Health department's various billing and account receivable systems:

- a. Controls do not exist to ensure all services provided or permits issued are properly recorded or appropriately billed.
- b. Monthly reconciliations between the patient billing system's computerized subsidiary ledger and the control account are not sufficiently documented.
- c. A control account does not exist for the environmental health billing system.
- d. No reconciliations are made between the environmental health billing system and payments receipted through the cash register.
- e. Patient accounts are written off the system without any review or approval by county officials.

The *Revised Code of Washington* (RCW) 43.09.200 states:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

Failure to maintain adequate internal controls in the health department billing systems increases the risk errors or irregularities could occur and not be detected in a timely manner, if at all.

The county had not considered the risks associated with the weaknesses identified. Management has since recognized the problems associated with the current patient billing system and anticipate future implementation of controls to address these weaknesses.

We recommend:

- a. Controls be implemented to ensure all services provided are properly recorded and appropriately billed.
- b. Monthly reconciliations between the patient billing system's subsidiary ledger and the control account be sufficiently documented.
- c. A control account for the environmental health billing system be established and maintained.
- d. Periodic reconciliations be made between the environmental health billing system's subsidiary ledger and control accounts.
- e. Patient accounts to be written off the system receive proper review and approval by county officials.

Auditee's Response

Whatcom County will put the necessary systems, controls and procedures into place to ensure Health Department patients are billed appropriately and to ensure resulting accounts receivable receive proper accounting treatment.

3. The Whatcom County Public Works Department Should Follow County Policies And Procedures When Purchasing And Surplusing Materials

During the course of our audit, we noted the following instances of noncompliance in purchasing and surplusing of materials by the Whatcom County Public Works Department:

- a. The county did not follow proper surplus and contracting procedures for the exchange of surplus pea gravel from the county's Able Pit. The county public works department determined they had a surplus of pea gravel resulting from their operations at the Able Gravel Pit. The county council declared the pea gravel surplus by Resolution No. 95-135. This resolution called for bids for the purchase of the pea gravel. Two bids were received which offered an exchange of materials. According to county records, both bids were rejected. It was later determined a verbal agreement was entered into between Pacific Concrete and the county public works department's fleet manager. This agreement called for the county to pick up 5/8 inch crushed material from Pacific Concrete in exchange for the pea gravel. The county would be charged \$7.25 per yard for the crushed rock and would receive a credit of \$3.90 a yard for the pea gravel. The total contract, which exceeded \$10,000, was not submitted for county council approval.
- b. The county purchased pit rock from Aggregates West Inc., in the amount of \$2,624.93 and road base from Construction Aggregates LTD in the amount of \$4,317.16. Neither of these vendors had submitted bids for the specific materials purchased. The county purchase requisition identified the purchase from Construction Aggregates LTD as a sole source purchase; however, the county has used other sources in the past. The county did not document why pit rock was purchased from Aggregates West Inc., rather than one of the vendors selected during the annual bidding process.

Whatcom County Code (WCC) 3.08.060, Bids and proposals required, states in part:

Bids or proposals must be submitted in response to specifications and invitations to bid for all contracts and purchases or leases of supplies, materials or equipment involving funds of \$10,000

Whatcom County Policies and Procedures, Section 2.2.011, states in part:

All purchases must follow bid requirements established by WCC

The failure to follow the county code and county policies and procedures is the result of county personnel's lack of knowledge of the county code and county policies and procedures regarding bid requirements. The county's failure to follow their own bid requirements, per the county code and county policies and procedures, results in inequitable treatment of vendors and may have resulted in the county overpaying vendors for materials received. Furthermore, the failure to ensure agreements are in writing may result in conflicts between the county and the other party over their respective responsibilities.

We recommend the county strictly adhere to established policies and procedures over bids and surplus materials. We further recommend all contracts be in writing and contracts greater than \$10,000 receive council approval.

Auditee's Response

Whatcom County Public Works Department will follow established bidding and surplus policies and procedures as prescribed by the Whatcom County Code.

Auditor's Concluding Remarks

We would like to express our appreciation to Whatcom County for its written response to our preliminary draft audit report. Based on the county's representations, it appears the matters delineated in our report have been, or are being, addressed.

We would like to take this opportunity to thank the staff of Whatcom County for their assistance and cooperation during the audit.

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

County Executive
Whatcom County
Bellingham, Washington

We have audited the accompanying general-purpose financial statements of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whatcom County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Whatcom County.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 21, 1996, on our consideration of the county's internal control structure and a report dated August 21, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Additional Information Regarding Audits Of Special Purpose Districts Included In
Trust And Agency Funds**

The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

Fire District No. 2
Fire District No. 3
Fire District No. 4
Fire District No. 7
Fire District No. 13
Northwest Regional Council
Whatcom Council of Governments
Whatcom County Rural Library District
Point Roberts Water District No. 4
Whatcom Water District No. 10
Whatcom Water District No. 13

Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts
Public Hospital Districts
Irrigation Districts
Water Districts
Sewer Districts
Water/Sewer Districts
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Cemetery District No. 6
Cemetery District No. 7
Cemetery District No. 10
Deming Diking District No. 2
Skagit Hospital District 304
Fire District No. 1
Fire District No. 5
Fire District No. 6

Fire District No. 8
Fire District No. 9
Fire District No. 10
Fire District No. 11
Fire District No. 14
Fire District No. 15
Fire District No. 16
Fire District No. 17
Fire District No. 18
Fire District No. 19
Point Roberts Parks & Recreation District No. 1
Sewer District No. 2
Water District No. 2
Water District No. 7
Water District No. 11
Water District No. 12
Glacier Water District No. 14
Acme Water District No. 18

Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

Cemetery District No. 1
Cemetery District No. 2
Cemetery District No. 3
Cemetery District No. 4
Cemetery District No. 5
Cemetery District No. 8
Cemetery District No. 9
Cemetery District No. 11
Diking District No. 1
Consolidated Drainage Improvement District No. 1
Drainage Improvement District No. 2
Drainage Improvement District No. 3
Drainage Improvement District No. 5
Drainage Improvement District No. 6
Drainage Improvement District No. 7
Drainage Improvement District No. 15
Drainage Improvement District No. 17
Consolidated Drainage Improvement District No. 20
Consolidated Drainage Improvement District No. 21
Drainage Improvement District No. 30
Drainage Improvement District No. 30A
Consolidated Drainage Improvement District No. 31
Macaulay Creek Flood Control District
Point Roberts Flood Control District
Samish River Flood Control District

Sumas Mountain Flood Control District No. 2
Northwest Park and Recreation District No. 2
Whatcom County Television Reception Improvement District No. 1

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

County Executive
Whatcom County
Bellingham, Washington

We have audited the general-purpose financial statements of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 21, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Whatcom County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

County Executive
Whatcom County
Bellingham, Washington

We have audited the general-purpose financial statements of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 21, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the county executive and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

County Executive
Whatcom County
Bellingham, Washington

We have audited the general-purpose financial statements of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 21, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to expending funds in the proper year, sampling and testing of material and workmanship, establishing paternity of any child for whom there is an assignment of rights under Title IV-A or IV-E, attempting to locate absent parents, and pay for a portion of Medicaid expenditures in accordance with the approved state plan as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments* and grant agreement/contract
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Whatcom County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the county executive and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

County Executive
Whatcom County
Bellingham, Washington

We have audited the general-purpose financial statements of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 21, 1996.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Whatcom County had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the county executive and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

County Executive
Whatcom County
Bellingham, Washington

We have audited the general-purpose financial statements of Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 21, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated August 21, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable and purchasing
 - Payroll
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Receiving
 - Inventory control
- **Specific Requirements**
 - Eligibility

During the fiscal year ended December 31, 1995, the county expended 83 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the county's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

This report is intended for the information of management and the county executive and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 21, 1996

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements And The Fixed Asset Control System Should Be Strengthened

As noted during prior audit reports, the county's fixed asset system had the following control weaknesses:

- a. The county's fixed asset records do not identify the source of funds used to acquire assets, who holds title to the property, or information on the disposition of the assets.
- b. The county's system does not ensure all assets are tagged to identify them as county property.
- c. The county did not perform a complete physical inventory of fixed assets during 1992, 1993, 1994, and 1995.
- d. The county does not maintain an accurate subsidiary fixed asset ledger with which to reconcile yearly physical inventory counts. The inaccuracies noted were adjusted on the county's financial statements.
- e. The county lacks a system for approving and recording all fixed assets determined to be ready for disposal and often does not delete fixed assets from the detailed accounting records upon disposal. In addition, the county does not have an adequate system for reducing the related account in the general fixed asset account group when assets are contributed to the Equipment Rental Fund.

At the time of our audit the county had not addressed the weaknesses noted above.

The *Revised Code of Washington* RCW 43.09.200, Local Government Accounting -Uniform System of Accounting, states in part:

The accounts shall show the receipt, use, and disposition, of all public property

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume 1, Part 3, Chapter 7, page 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population

The BARS manual, Volume 1, Part 3, Chapter 7, page 17 further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, for any fixed assets purchased by the county using federal funds, the "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by the U.S. Office of Management and Budget (OMB), Subpart C, Section .32(d), Management Requirements, states in part:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Article IV, Section 1.10.140 of the *Whatcom County Code* states in part:

Each county department head shall submit annually to the county purchasing agent an inventory, current as of a date set by the property management committee, of all county-owned personal property

The county did not allocate sufficient resources to implement the necessary internal controls and accounting procedures to properly account for fixed assets. The county has implemented a new general ledger system, but has not yet brought the fixed asset system on-line.

The county's lack of adequate accounting procedures and internal controls over fixed assets results in the possibility of errors and irregularities occurring and not being detected in a timely manner, if at all. In addition:

- a. Lacking a system to identify fixed assets acquired with federal funds, and therefore, the final disposition of such property, the county cannot comply with the requirements of the "Common Rule." These deficiencies can impair the county's eligibility for future assistance.
- b. Without an adequate system to tag assets, the county loses control over the accountability for these assets.
- c. Failure to perform physical inventories limits the county's ability to determine if all assets in the accounting records are still in the county's possession.
- d. Without maintaining an accurate subsidiary ledger the county is unable to ensure assets are recorded properly and are accurately reported in their financial statements.
- e. Without adequately tracking deleted assets, the county cannot determine the reason for missing assets (i.e, stolen, sold, etc.) and cannot determine if assets are accurately reported on their financial statements.

We recommend the county strengthen the fixed asset internal control system to ensure county property is adequately safeguarded and accounted for. We further recommend the county

develop a fixed asset accounting system capable of demonstrating compliance with federal grantor requirements.

Auditee's Response

In 1994 and 1995 Whatcom County implemented a fixed asset system for all proprietary activities. Fixed asset policies and procedures are currently being updated. The County wide fixed asset project originally scheduled for 1996 was delayed until 1997 due to a major system upgrade required for the County's financial management system.

Auditor's Concluding Remarks

We would like to express our appreciation to Whatcom County for its written response to our preliminary draft audit report. Based on the county's representations, it appears the matters delineated in our report have been, or are being, addressed.

We would like to take this opportunity to thank the staff of Whatcom County for their assistance and cooperation during the audit.

WHATCOM COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Missing At Whatcom County

Resolution: The county is currently working on the resolution of the misappropriation.
2. The County Should Comply With The Statutory Requirements For Revaluation Of Real Property

Resolution: The Department of Revenue has notified the county of its compliance with the statutory requirements.
3. The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements And The Fixed Asset Control System Should Be Strengthened

Resolution: Accounting for fixed assets has not improved. See Federal Finding 1.
4. The County's Accounting System Should Identify Grant Expenditures By Grant Program For The Whatcom County Health Department

Resolution: The county is accounting for grant expenditures by grant program for all health department grants.
5. The County Should Strengthen Controls Over The Purchasing And Voucher Systems And Ensure All Records Are Retained As Required

Resolution: The county modified the purchasing and voucher system controls.